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Supreme Court, U.S.
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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST OF AMICUS CURIAE

This brief *amicus curiae* is submitted in support of petitioners by the New York Intellectual Property Law Association (the "NYIPLA" or the "Association"), a professional association of more than 1,300 attorneys whose interests and practices lie in the area of patent, copyright, trademark, trade secret and other intellectual property law.[1]

NYIPLA members include in-house attorneys working for businesses that own, enforce and challenge patents as well as attorneys in private practice who represent both patent owners and accused infringers. NYIPLA members represent both plaintiffs and defendants in infringement litigation and also regularly participate in proceedings before the United States Patent and Trademark Office ("PTO"), including representation of applicants for patents and parties to interferences. A substantial percentage of NYIPLA members participate actively in patent litigation.

Patent litigators must keep themselves continuously apprised of the antitrust and patent misuse consequences of all controlling precedents of this Court as interpreted by the federal appellate courts. Those precedents include pronouncements regarding the legality of particular license terms and the permissibility of refusals to license and the initiation and settlement of patent litigation – all of which must be considered so that their clients can be counseled accurately, expeditiously and effectively.

Since its founding in 1922, the NYIPLA has committed itself to maintaining the integrity of United States patent law, and to the proper application of that law. Nowhere is the rational and considered application of patent law principles more important to the economy of the United

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1. Pursuant to SUP. CT. R. 37.6, the NYIPLA and its counsel represent that they have authored this brief in whole, and that no person or entity other than the *amicus curiae* and its counsel have made a monetary contribution to the preparation or submission of this brief. Pursuant to SUP. CT. R. 37.3, both petitioners and respondents have consented to the filing of this brief and documents reflecting such consent have been filed with the Clerk of this Court.

States than at the interface between those principles and the principles embodied in the antitrust laws.[2]

One area of this critical interface in which counseling vigilance has proved particularly important has been in the area of "tying" arrangements, including that subcategory of such arrangements involving alleged ties between patent claims and nonstaple goods usually referred to under the rubric of "contributory infringement". The Association has maintained a particularly strong interest in this area for many years and, as this Court recognized in *Dawson Chemical*,[3] actually drafted the original 1952 legislation, now embodied in 35 U.S.C. § 271(d),[4] in which Congress overruled the principle announced in the *Mercoid* cases.[5]

POSITION OF AMICUS REGARDING QUESTION PRESENTED

The question for determination on *certiorari* was articulated by the Court as follows:

> Whether in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.[6]

2. If any doubt on that score ever existed, it would have been obviated by the testimony given during the lengthy hearings held in early 2002 under the joint sponsorship of the Antitrust Division of the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC"), the agencies charged with enforcement of the antitrust laws. FTC/DOJ, Public Hearings, *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy* (2002), *available at* http://www.ftc.gov/opp/intellect/index.htm.

3. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 204-5 (1980) ("*Dawson Chemical*"). At the time of the drafting activities and testimony referred to in *Dawson Chemical*, the Association was known as the New York Patent Law Association ("NYPLA").

4. 35 U.S.C. § 271(d) (2000).

5. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) ("*Mercoid I*"); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) ("*Mercoid II*").

The Association respectfully submits that market power may not be presumed from the existence of a patent and that proper resolution of the issue presented in this *certiorari* proceeding requires determination of whether the amendment resulting in Section 271(d)(5) as enacted by Congress in 1988[7] statutorily negated the rule permitting a presumption of market power from the mere existence of a patent for antitrust and patent misuse purposes as announced in another decision of this Court – *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) ("*Loew's*").

Insofar as pertinent to the arguments of the Association, the amended version of Section 271(d) reads as follows:

> (d) No patent owner . . . shall be denied relief or *deemed guilty of misuse or illegal extension of the patent right* by reason of his having done one or more of the following:
>
> (1) *derived revenue from* acts which if performed by another without his consent

6. Insofar as this formulation refers to tying "of a non-patented good", the Association assumes that, under the rule of *Dawson Chemical*, the Court intended that such good likewise would be "a staple article or commodity of commerce" within the meaning of 35 U.S.C. § 271(c). The Association also assumes that the Court's focus on Sherman Act Section 1 arises from those portions of the court of appeals panel decision which state (1) that the "district court granted summary judgment on plaintiff Independent's Sherman Act section 1 claim because Independent had failed to produce any evidence of market power over the tying product," *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005)("Independent Ink"); and (2) that respondent had disclaimed reliance upon Section 3 of the Clayton Act (*Id.* at 1346 n.4). As a technical matter, a private action is brought "under" Section 4 of the Clayton Act, 15 U.S.C. § 15 (2000), to recover treble the damages suffered "by reason of" conduct which violates the antitrust laws – which, of course, include Section 1 of the Sherman Act.

7. Section 201 of Pub. L.. No. 100-703, 102 Stat. 4674 (1988).

would constitute *contributory infringement* of the patent;

(2) *licensed* or authorized another to perform acts which if performed without his consent would constitute *contributory infringement* of the patent;

(3) *sought to enforce his patent rights against* infringement or *contributory infringement;*

(4) *refused to license* or use any rights to the patent; or

(5) *conditioned* the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.*

35 U.S.C. § 271(d) (2000) (emphasis supplied).

The Association respectfully submits that, just as this Court found in *Dawson Chemical* that the original 1952 enactment of the first three subparagraphs of Section 271(d) reflected a clear Congressional intent to overrule the *Mercoid* decisions, the 1988 amendment which resulted in Section 271(d)(5) reflected a clear Congressional intent to overrule the long moribund *Loew's* holding which many observers feared might have been resurrected by *dicta* in the opinion of the *Jefferson Parish* majority.[8]

Accordingly, the Association believes the question framed by the Court can and should be disposed of completely based solely upon Section 271(d)(5) of the Patent Act, 35 U.S.C. § 271(d)(5), a 1988 amendment to the original 1952 enactment in which Congress legislatively overruled

8. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984) ("*Jefferson Parish*").

whatever residual vitality this Court's *Loew's* presumption might have possessed in the area of patent tying.

The Association also agrees with and endorses the positions taken by petitioners,[9] and by the *amici* supporting the grant of *certiorari*,[10] to the effect that the precedental value of *Loew's* has been completely undermined both by this Court's *Walker Process* decision,[11] and by the attenuation of the *per se* rule previously applied to staple product ties in such post-*Loew's* non-patent decisions of this Court as *Fortner II*.[12]

The Association also believes that petitioners and the *amici* have correctly formulated some of the important policy arguments in favor of abandoning the *Loew's* presumption. Arguably, still another justification for abandonment of the evidentiary presumption of *Loew's* may be discerned in this Court's abrogation of the licensee estoppel doctrine in *Lear v. Adkins*.[13] At least part of this Court's willingness to endorse both evidentiary presumptions regarding relevant antitrust markets and theories of *per se* misuse prior to June of 1969 probably can be attributed to a desire to facilitate the ability of patent licensees to insinuate themselves within one of the recognized exceptions to the judicial doctrine of licensee estoppel.[14]

9. In the "Petition For A Writ Of Certiorari" of April 5, 2005 ("Petition").

10. Such *amici* include the American Bar Association ("ABA"), the Intellectual Property Owners Association ("IPO"), the American Intellectual Property Association ("AIPLA"), and Pfizer Inc. ("Pfizer").

11. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) ("*Walker Process*").

12. *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977) ("*Fortner II*").

13. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) ("*Lear v. Adkins*").

14. As discussed in Point II.B.2 of the Argument, the pre-*Lear* tension between the Court's reluctance unnecessarily to extend the scope of its *per se* rules and its desire to facilitate challenges to invalid patents

(Cont'd)

Because the Association concludes that Section 271(d)(5) itself statutorily overruled *Loew's* and must control disposition of this proceeding, it cannot directly endorse the conclusion of petitioners and the *amici* that it is necessary for this Court to overrule that precedent for purposes of this case. Since Section 271(d)(5) only exempts patent-based misuse and antitrust claims, however, the Association agrees that it would be desirable for the Court to explicitly overrule *Loew's* and thereby foreclose assertion of any market power presumptions by creative future infringers who claim that copyrights or other non-patent classes of intellectual property have been employed to tie staple goods.

THE DISTRICT COURT AND PANEL DECISIONS

The Association endorses and adopts the fair and accurate presentation of the operative facts set forth in the Petition. It is believed, however, that some brief additional explication of the reasoning of the district court and the court of appeals panel might assist the Court in assessing the context in which the issues were addressed below in four specific areas: (1) the shortcomings in the panel's analysis of Section 271(d)(5); (2) the complete absence of any finding below that the allegedly tied ink represented a staple commodity; (3) the degree to which the panel ignored the settled Federal Circuit view of *Loew's*; and (4) the concessions made by the panel that the exclusionary potential of the claims of petitioners' patent were narrowly limited in comparison to the available substitutes for the patented ink jet system and supply apparatus in any of the antitrust product markets in which the patented systems and devices might be alleged to compete.

(Cont'd)

under the so-called "antitrust" exception to the estoppel doctrine by those with the greatest economic incentive to do so may be best exemplified by comparing the majority and dissenting opinions in *Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950) ("*Automatic Radio*").

A. The Panel's Insufficient Discussion Of Section 271(d)(5)

In the district court, petitioners had argued Professor Areeda's interpretation of Section 271(d)(5) as reflecting a Congressional intent sufficiently broad to effectively abolish "any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine."[15] The district court found, however, that it was not necessary to resolve the scope of the Congressional exemption "for purposes of deciding" the summary judgment motions in favor of petitioners. *Id.*

For reasons that are not apparent, the impact of Section 271(d)(5) was not directly addressed before the court of appeals by either petitioners or respondent, and the panel apparently never focused either (a) upon the actual operative charging language of the preamble which had been enacted in 1952, or (b) upon the same Congressional deliberations regarding that original enactment that had been exhaustively analyzed in *Dawson Chemical*. Based upon its review of the more limited 1988 legislative history, the court of appeals panel concluded that "Congress has declined to require a showing of market power for affirmative patent tying claims as opposed to patent misuse defenses based on patent tying. Proof of actual market power is required to establish a patent misuse defense based on patent tying." 396 F.3d at 1349 n.7.

The Association respectfully submits that the panel erred both (a) by adopting the precise reading of Section 271(d)(5) which Professor Areeda had warned would be "anomalous", and (b) in its determination that in enacting Section 271(d)(5) in 1988 "Congress was not attempting to change existing law." *Id.* These conclusions fly directly in the face of the fact that, like *Mercoid II*, *Loew's* involved affirmative claims under the antitrust laws. In enacting Section 271(d)(5) Congress clearly intended to undo all of the mischief that it felt might arise based upon the *Jefferson*

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15. *Independent Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1166 n. 11 (C.D. Cal. 2002) (the "district court decision"), *citing* PHILIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1737c (1996).

Parish majority's suggestion that this Court might continue to follow *Loew's*.

B. The "Tied" Ink Was Not Held To Be A Staple Commodity

The panel accepted respondent's characterization of the terms of the OEM licenses as "tying" based merely upon its conclusion that the allegedly tied ink was not patented. 396 F.3d at 1345. There was no separate finding below that the ink was a "staple article or commodity of commerce" as 35 U.S.C. § 271(c) and the rule of *Dawson Chemical* require.[16]

C. The Panel Ignored The Settled Federal Circuit View Of Loew's

Anyone reviewing the decision below might justifiably assume that the panel had decided a matter of first impression. In point of fact, however, at least eleven separate decisions of the Court of Appeals for the Federal Circuit previously had expressly or impliedly rejected application of the market power presumption of *Loew's*.[17]

16. Indeed, both expert economic testimony in the district court and documents that were before the court of appeals panel strongly suggest that the "tied" ink was actually a "nonstaple" commodity. If the summary judgment is not reinstated, therefore, on remand the district court might well dismiss pursuant to Section 271(d)(3).

17. *In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000) ("*Xerox (ISO)*") ("A patent alone does not demonstrate market power"); *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340, 1368 (Fed. Cir. 1998) ("It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms"); *Schlafly v. Caro-Kann Corp.*, No. 98-1005, 1998 WL 205766, at *7 (Fed. Cir. 1998) (unpublished) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power"); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("violation of the antitrust laws always requires . . . zmarket power in a defined relevant market (which may be broader than that defined by the patent)"); *F.B. Leopold Co. v. Roberts Filter Mfg. Co., Inc.*, Nos. 96-1218, 96-1278, 96-1456, 96-1471, 1997 WL 378004 at *6 (Fed. Cir. 1997) (unpublished) ("Before the district court, Roberts presented no evidence to establish a relevant market in which Leopold might have market power"); *Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, (Cont'd)

In each of those eleven decisions, which date from both before and after enactment of Section 271(d)(5) in 1988, the panels had painstakingly evaluated the pertinent decisions of this Court, including specifically the *Walker Process* and *Fortner II* lines of precedent, and could perceive no justification for applying the *Loew's* presumption in the face of such a torrent of contrary authority.

(Cont'd)

No. 93-1295, 1994 WL 48547 (Fed. Cir. 1994) (unpublished), *aff'g per curiam, Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, 1992 WL 465720 (C.D. Cal 1992) ("A patent does not of itself establish a presumption of market power in the antitrust sense" and, accordingly, fact that allegedly "tying" skid plates were patented had not discharged burden of establishing "sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product"); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense . . . . The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist."); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986) (affirming both holding of *per se* patent-based tying misuse two years before enactment of Section 271(d)(5) and dismissal of antitrust counterclaim predicated upon same alleged tie because accused infringer failed to establish "sufficient economic power in the tying product and an effect on a 'not insubstantial' amount of commerce in the tied product"); *Windsurfing Int'l, Inc. v. AMF. Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986) (noting two years before the enactment of Section 271(d)(5) that "[r]ecent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive" and dismissing patent misuse charge predicated on alleged trademark tie-out because "[t]o sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market"); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985) (If district court had discerned "bad faith, it would have had to make specific findings defining the relevant geographic and product markets, and specifying the market share possessed by Loctite in the relevant market"); *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("patent rights are not *legal monopolies* in the antitrust sense of that word") (emphasis in original).

D. Discussion Of The Patent Claims And Markets

Petitioners' United States Patent No. 5,343,226 ("the '226 patent") contains one narrowly defined claim to an "impulse ink jet system" and three similarly narrow claims to embodiments of the "ink supply apparatus" for the claimed system. According to the court of appeals panel, the point of novelty for the four claims of the '226 patent involved use of a "hand actuated peristaltic pump" which represented a fourth solution to the problem of facilitating "pressure in one direction, forcing ink towards the printhead, without sucking the ink back when that pressure is released." *Independent Ink*, 396 F.3d at 1344-45.

There is no indication in the panel's opinion as to the economic significance of petitioners' advance over the three described prior art mechanisms, and no indication as to which of those alternatives are used by the "two other competitors" of petitioners who "have designed printheads that can print bar codes on kraft paper." *Id.* at 1352.

Finally, the panel gave no consideration to whether there was any cross-elasticity of demand as between use of the "impulse ink jet" direct printing systems to which the claims of the '226 patent are directed and the bar code labeling systems which the testimony indicated could be used as "substitutes" for the "patented technology." *Id.*

SUMMARY OF ARGUMENT

The NYIPLA is mindful of this Court's directive that a brief for *amicus curiae* should be limited to "relevant matter not already brought to its attention by the parties." SUP. CT. R. 37.1.[18]

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18. The Association has carefully reviewed the Petition and the briefs of the *amici* supporting the grant of *certiorari*, and every effort has been made to comply with the spirit of Rule 37.1 by minimizing to the extent possible any overlap in factual subject matter and argumentation between this brief and those additional submissions.

In Point I.A of the Argument, the Association presents a non-duplicative argument regarding the plain meaning of Section 271(d)(5).

In Point I.B of the Argument, the Association presents another non-duplicative argument to the effect that the legislative history of the original enactment of Section 271(d) in 1952, as previously reviewed in *Dawson Chemical*, confirms that Congress clearly intended to undo both the misuse and antitrust implications of the *Mercoid* decisions.

In Point I.C of the Argument, the Association presents another non-duplicative argument to the effect that the 1988 enactment of Section 271(d)(5) inarguably was intended to legislatively overrule the presumption of market power articulated in *Loew's* which the *Jefferson Parish* majority suggested might remain viable; that the unchanged preamble of Section 271(d) effectively guaranteed that the presumption would be overruled for both antitrust and misuse purposes; and that, contrary to the belief of the court of appeals panel, the failure of Congress to enact the statute contemplated by an earlier Senate bill is irrelevant to the proper resolution of the question presented in this Court.

In Point II.A of the Argument, the Association endorses the arguments and conclusions of petitioners and the *amici* regarding the necessity to overrule *Loew's* both (1) as a result of the Court's subsequent attenuation of the *per se* rule in the non-patent tying cases exemplified by *Fortner II*; and (2) as a result of the Court's *Walker Process* determination that market power in patent-antitrust cases must be assessed by comparing the exclusionary power of the patent claims with the properly defined relevant product market.

In Point II.B of the Argument, the Association both endorses the policy arguments previously advanced by petitioners and the *amici*, and presents a non-duplicative policy argument predicated upon the Court's *Lear v. Adkins* decision.

ARGUMENT

POINT I

SECTION 271(d)(5) OF THE PATENT ACT COMPLETELY ABROGATED THE RULE OF *LOEW'S*

As previously noted, neither petitioners nor respondent directly addressed the issue of Section 271(d)(5) in their court of appeals briefs. Respondent Independent Ink's initial brief, however, did quote extensively from a footnote in a California district court decision,[19] which in turn had both cited and adopted the reasoning of a law review article (the "Calkins article"),[20] which had rejected the proposition that Section 271(d)(5) could be read to provide antitrust immunity to patentees who lack "market power in the relevant market for the patent or patented product on which the license or sale is conditioned".

The Calkins article was itself sharply criticized in an important article by a nationally respected patent-antitrust practitioner and interface scholar (the "Hoerner article").[21] The Hoerner article reasoned that, by focusing exclusively upon the limited legislative history of the 1988 amendments themselves, the Calkins article had ignored both the plain meaning of the operative charging language in the section's preamble (which had remained unchanged since 1952), and the clear legislative history of that original enactment – the

19. *Grid Sys. Corp. v. Tex. Instruments, Inc.*, 771 F. Supp. 1033, 1037 n. 2 (N.D. Cal. 1991) ("*Grid Systems*"). Arguably, the *Grid Systems* holding contravened the Ninth Circuit's earlier decision in *Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133, 1143 (9th Cir. 1980).

20. Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175 (1988-89) (the "Calkins article").

21. Robert J. Hoerner, *Is Activity Within the Subsections of 35 U.S.C. § 271(d) Protected From a Finding of Antitrust Violation?*, 74 J. PAT. TRADEMARK OFFICE SOC'Y 283 (1992) (the "Hoerner article").

same legislative history which had been exhaustively reviewed by this Court in *Dawson Chemical*.[22]

Neither the Calkins article nor the court of appeals panel made any independent assessment of the actual operative charging language in the preamble of Section 271(d) which controls each of its five subsections including Section 271(d)(5). Moreover, neither the Calkins article nor the court of appeals panel made any attempt to determine whether the legislative history of the 1952 enactment considered by this Court in *Dawson Chemical* sheds any light on the appropriate interpretation of that operative language. Nevertheless, the Calkins article apparently represented the sole justification for the panel's conclusion that Section 271(d)(5) was not intended to and did not Congressionally overrule the presumption of *Loew's* whose continuing vitality had been suggested by the *Jefferson Parish* majority.

A. The Plain Meaning Of Section 271(d) Of The Patent Act Exempts The Conduct Described In Each Of Its Five Subsections From Both Charges Of "Misuse" And Charges Of "Illegal Extension Of The Patent Right" Which Must Include Antitrust Tying

The operative charging language in the preamble to Section 271(d) provides that no patent owner shall be *"deemed guilty of misuse or illegal extension of the patent right"* by reason of having done anything specified in the five enumerated subsections that follow (emphasis supplied). The Association respectfully submits that, as the Hoerner article first pointed out, the phrase "illegal extension of the patent right" certainly must be read as sufficiently broad to include charges of patent-based tying under the antitrust laws.

The necessity of reading the "illegal extension" language broadly to include antitrust tying is buttressed

22. Significant portions of Points I.A, I.B and I.C of the Argument are drawn directly from the approach taken by the Hoerner article.

by use of the disjunctive "or" to juxtapose "misuse" against such "illegal extension." This alternative formulation plainly militates against an interpretation of the "illegal extension" language as merely duplicative of "misuse". Under the precedents of this Court, a construction of a statute "that gives effect 'to every clause and word of [the] statute'" is preferred over one that does not. *Negonsott v. Samuels*, 507 U.S. 99, 106 (1993) (*quoting Moksal v. U.S.*, 498 U.S. 103, 109-110 (1990)).

Finally, reading the phrase "illegal extension of the patent right" to include antitrust tying charges accords fully with the principle that the exercise of rights authorized under the patent law cannot be found to violate the antitrust laws – a principle first definitively articulated by this Court in *United States v. United Shoe Machine Co.*, 247 U.S. 32, 57 (1918) ("*United Shoe*").

B. The Legislative History Of The Original 1952 Enactment Of Section 271(d) Highlights The Congressional Purpose Of Eradicating The Effects Of The *Mercoid* Decisions From Both The Defense Of Unenforceability And The Private Right Of Antitrust Recovery Under Clayton Act Section 4

In *Dawson Chemical*, this Court reviewed the purpose, legislative history and construction of the original Section 271(d) as enacted in 1952. The Court recognized that the statute had been designed to limit application of both the doctrine of patent misuse and the antitrust laws to the doctrine of contributory infringement and had Congressionally overruled this Court's two 1944 *Mercoid* decisions.

The *Mercoid* cases had effectively abolished the doctrine of contributory infringement by holding that the sale of non-patented goods could not be tied to a patented combination, even where the goods were not staple articles of commerce but had been manufactured solely to assist purchasers in

directly infringing the claims of the patent. Under the *Mercoid* cases, attempts to enforce a patent under the doctrine of contributory infringement would both represent *per se* misuse (*Mercoid I*) and provide the predicate for an antitrust violation (*Mercoid II*).

In *Dawson Chemical* this Court noted that

> [t]he principal sources for edification concerning the meaning and scope of § 271 . . . are the extensive hearings that were held on the legislative proposals that led up to the final enactment. In three sets of hearings over the course of four years, proponents and opponents of the legislation debated its impact and relationship with prior law.

448 U.S. at 204.

The history of the committee hearings, conducted in 1948[23],1949[24] and 1951,[25] was discussed at great length. *Id.* at 204-212. *See also* Hoerner article at 288-97.

The Association, which was then known as the NYPLA and had drafted the original bill, told the Committee that "the purpose of the proposal was to reverse the trend of Supreme Court decisions that had indirectly cut back on the contributory infringement doctrine." *Dawson*, 448 U.S. at 205 (citing 1948 Hearings at 4). More specifically, the bill

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23. Contributory Infringement in Patents, Definition of Invention: Hearings Before Subcomm. on Pat., Trade-Marks, and Copyrights of the H. Comm. on the Judiciary, 80th Cong. (1948) ("1948 Hearings").

24. Contributory Infringement: Hearings on H.R. 3866 before Subcomm. No. 4 of the H. Comm. on the Judiciary, 80th Cong. (1949) ("1949 Hearings").

25. Patent Law Codification and Revision: Hearings on H.R. 3760 Before Subcomm. No. 3 of the H. Comm. on the Judiciary, 82d Cong. (1951) ("1951 Hearings").

had been drafted in order to overrule the *Mercoid* cases. *See* 1948 Hearings at 4-6.

The Hearings also reveal that the committee understood completely that, under the *United Shoe* principle, making enforcement of patents under the contributory infringement doctrine permissible under the patent law necessarily would have the effect of precluding application of the antitrust laws to those same activities. Indeed, as this Court perceived in *Dawson Chemical*, representatives of the DOJ "vigorously opposed" the draftsmen's desire for such a statutory "restriction on the doctrine of patent misuse that would enable patentees to protect themselves against contributory infringers". 448 U.S. at 204.

The DOJ representatives at the hearings included Roy C. Hackley, Jr., Chief of the Patent Section in 1948 and John C. Stedman of the Antitrust Division in 1949. 1948 Hearings at 65-69; 1949 Hearings at 50-60, 63-64, 75-77. In 1951, the DOJ was represented by Wilbur L. Fugate of the Antitrust Division and T. Hayward Brown of the Patent Litigation Unit. 1951 Hearings at 93-98, 162-169, 207-08. Peyton Ford, Deputy Attorney General, also appeared by letter. *Id.* at 206.

In the DOJ's final letter to the Committee in 1951, Mr. Fugate explained that "the Department of Justice objects to . . . [the bill] since its effect might be to carve out an area in which the antitrust laws would not operate." 1951 Hearings at 207. In the 1949 Hearings, Mr. Stedman had explained that, if enacted, Section 271(d) would effect a *pro tanto* amendment to the antitrust laws under the rule of *United Shoe*, stating that:

> The doctrine would probably be invoked that if something is specifically authorized by the patent laws, then it does not constitute a violation of the Clayton Act. . . . [T]he effect of passing this bill might be to *carve out an area in which the antitrust laws would not operate*, even though the specified acts would be a misuse under the present statute. The statute would then say that such acts were no longer a misuse. That is what we are concerned about.

1949 Hearings at 57 (emphasis supplied).

In the DOJ's view, the bill would "obviate particular acts, asserted to be contributory infringement, as being construed as violative of the antitrust laws." 1948 Hearings at 68 (Hackley) and "unwarrantedly limit the application of the antitrust laws." 1949 Hearings at 56 (Stedman). The DOJ preferred the existing rule that "when the contributory infringement doctrine comes into conflict with the misuse doctrine, as exemplified by the Clayton Act and the Sherman Act, then the misuse doctrine shall control." 1949 Hearings at 54. The DOJ also believed that "[t]he [misuse] doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof." 1951 Hearings at 97 (Brown). Misuse "is, in the opinion of the Department, a salutary principle which is important in the enforcement of the antitrust laws." 1951 Hearings at 206 (Ford).

The proponents of the bill agreed fully with the DOJ's position that the proposed amendment of the patent law to authorize enforcement of patents under the doctrine of contributory infringement would create an exemption to the antitrust laws as well. As the proponents told the Committee, the bill:

- "strikes a proper balance between the field of patent law on the one hand and the field of general law in which antitrust laws operate on the other hand." 1948 Hearings at 11 (statement of Giles S. Rich, representing NYPLA).
- "will eliminate a lot of headaches and a lot of alleged violations of the antitrust laws" 1949

Hearings at 30 (statement of Giles S. Rich, representing NYPLA).

- "will be a help not only to the patentee but to the Antitrust Department because in this branch of patent law at least it draws as distinct a law as you can in language . . . [I]t shows the Department of Justice whom they aught to prosecute and shows the patentee what he may safely do to enforce the rights that the Government has given him." 1948 Hearings at 16 (statement of Robert W. Byenly, Chairman, Comn. on Pat., Ass'n of the Bar of the City of New York).

- "draws a sharp line of demarcation between the patent law and the antitrust law. This will enable patentees to protect their property without inadvertent violation of the Sherman Act, and will also simplify the work of the Department of Justice by defining a field in which restraint of trade cannot be justified under the patent law." 1948 Hearings at 19-20 (statement of Ass'n of the Bar of the City of New York).

In its 1980 *Dawson Chemical* decision, this Court expressly recognized that, although the "policy of free competition runs deep in our law", "the policy of stimulating invention that underlies the entire patent system runs no less deep." 448 U.S. at 221. In the Court's view, moreover, there was no need to determine "whether the principles of free competition could justify" the potential reduction of the incentive to invent by complete eradication of the contributory infringement doctrine because "Congress' enactment of § 271(d) resolved these issues in favor of a broader scope of patent protection." *Id.* at 233.

C. Congress Plainly Intended Section 271(d)(5) To Overrule The *Loew's* Presumption As Discussed In *Jefferson Parish*, And The Failure Of Congress To Enact The Senate Bill Was Irrelevant

1. The *Loew's* Presumption Was Explicitly Targeted By The 1988 Amendment Resulting In Section 271(d)(5)

Just as the original 1952 enactment of Section 271(d) legislatively overruled both the antitrust and misuse aspects of the *Mercoid* cases, the 1988 amendment adding Section 271(d)(5) must be read to have legislatively overruled the market presumption of *Loew's* for both misuse and antitrust purposes.

The 1952 and 1988 enactments both represent reactions to decisions of this Court which the Patent Bar viewed as sufficiently threatening to the incentive to innovate that an appropriate Congressional response was sought and obtained.

The Senate originally took up the bill which eventually resulted in Section 271(d)(5) because of industry concern over the *dictum* from *Jefferson Parish* in which the majority cited *Loew's* for the proposition that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16.

The Senate also considered a statutory modification of sufficient breadth to alter the copyright law in similar fashion because of this Court's denial of certiorari in *Data General*.[26] As is clear from Senator Leahy's comments in the *Congressional Record*, the Senate bill addressed the fact that

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26. *Digidyne Corp. v. Data General Corp.*, 734 F. 2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985) ("Data General").

"courts have presumed market power from the existence of a patent or copyright" and cited *Loew's* for the proposition that courts "have been applying the presumption at least as far back as 1962". 134 Cong. Rec. S. 14,435 (daily ed., Oct. 4, 1988) (statement of Sen. Leahy).

According to Senator Leahy, the Senate bill's "elimination of the presumption of market power is intended to reduce the likelihood that antitrust claims will be brought against intellectual property owners who should not be subject to antitrust liability". *Id.*

2. The Abandonment Of The Original Senate Bill Did Not Affect The Antitrust Consequences Of Section 271(d)(5)

Using reasoning derived from the Calkins article, as quoted by the district court in *Grid Systems* and cited by respondent to the court of appeals, the panel concluded in a footnote to its opinion that abandonment of the original Senate bill in favor of enactment of Section 271(d)(5) in its present form somehow provided evidence of the intent of Congress. Based upon this inference, the panel held that Section 271(d)(5) did not foreclose application of the market presumption of *Loew's* to antitrust cases because the bill "that originally emerged from the Senate contained language also abrogating the presumption of market power in antitrust patent tying cases. This language was removed in a House amendment and does not appear in the statute, making clear that Congress was not attempting to change existing law in this respect." *Independent Ink*, 396 F.3d at 1349, n. 7 (internal citations omitted). This putative inference is totally unsupportable for three separate reasons.

First, the court of appeals panel erred by substituting tenuous inferences from a limited and ambiguous legislative history for any direct construction of the operative charging language of the preamble to Section 271(d). Indeed, the panel never attempted any full, reasoned construction of the language of any portion of the critical statute.

Second, Congress elected to abrogate the market power presumption of *Loew's* for licensed patent rights and patented products by adding a subsection to the existing template of Section 271(d), which already included the operative charging language of the preamble or "lead-in".[27] For that reason, only the legislative history of the original 1952 enactment could affect construction of the operative charging language of the preamble.

Finally, despite the panel's assertion that the Congressional purpose for enactment of Section 271(d)(5) is "clear", there is no logical warrant for the inferences and assumptions it draws regarding the Congressional rationale for abandoning a section of the original proposed Senate bill in favor of enacting Section 271(d)(5) within the existing framework of Section 271(d).

In concluding that the reasoning of the Calkins article as adopted by the district court in *Grid Systems* "can be questioned", the Hoerner article pointed out that "[t]he issue is what the lead-in language to § 271(d) means. It was passed in 1952, and had whatever meaning it had. That meaning cannot have been changed by Congress in 1988, for while it added two additional subsections to § 271(d), it left the wording of § 271(d), itself, untouched."[28] Hoerner article at 285.

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27. Moreover, by overruling the market presumption of *Loew's* through creation of an exemption in the statutory patent law, Congress rendered the presumption likewise unavailable under the principle of *United Shoe* for application in actions under the antitrust laws as well.

28. Under such circumstances, the Hoerner article (a) found *United States v. Clark*, 445 U.S. 23, 32-33 (1980) ("failure to alter" language from original enactment "likewise failed to modify the purpose of that provision as envisioned by the Congress that enacted it") "on point" and (b) submitted that "the views of a subsequent Congress form a hazardous basis for inferring the intent of an earlier one", *citing Russell v. United States*, 464 U.S. 16, 26 (1983) (internal quotes omitted).

As a matter of law, therefore, the court of appeals panel was wrong to attach significance to abandonment of another proposed statute in 1988, when the critical operative charging language of Section 271(d) had been enacted 36 years previously in 1952. Even were the analysis of the Federal Circuit panel permissible under the law, moreover, its inferences and assumptions regarding the Congressional decision to amend Section 271(d) rather than enact the Senate's original proposal are totally unsupported. There is nothing in the legislative history to support the panel's conclusion, and there are several inferences not considered by the panel which appear more likely than the one ascribed to Congress in the decision.

The original Senate bill, S. 438,[29] contained both Section 102,[30] a comprehensive provision that would have affected a broad spectrum of intellectual property, and Section 201[31], a narrower provision explicitly limited to patent-related activity. Ultimately, Section 102 was removed by a House amendment.

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29. Intellectual Property Antitrust Protection Act of 1988, S 438, 100th Cong. (1988)

30. Section 102 provided that:

> In actions in which the conduct of an owner, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws in connection with the marketing or distribution of a product or service protected by such a right, such right shall not be presumed to define a market or establish market power, including economic power and product uniqueness or distinctiveness, or monopoly power.

31. Section 201 provided that :

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his or her licensing practices or actions or inactions relating to his or her patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws.

The Federal Circuit panel apparently was referring to Section 102 in footnote 7 of its opinion. Far from containing a "clear" expression of Congressional intent, the legislative history is virtually silent as to why Section 102 was removed by the House amendment.[32]

The removed language was much broader than the court of appeals acknowledged and, if enacted, would have done far more than abrogate the presumption of market power in patent-related antitrust cases. Moreover, Section 102 would have required a separate statutory enactment rather than merely an amendment to Section 271(d) of the Patent Act.

There are at least two significant differences between the broad proposed Section 102 and the amended version of Section 271(d) enacted in 1988. Although either theoretically might explain why Congress did not enact Section 102, the actual explanation may be quite different.

First, while the scope of the amendment enacted by Congress is limited to patents, Section 102 would have applied to any intellectual property right, including copyrights. Second, the exemptions enacted by Congress as Sections 271(d)(4) and 271(d)(5) are limited narrowly to refusals to deal and the tying of staple products where the patent owner does not have "market power in the relevant market for the patent or patented product on which the license or sale is conditioned" -- not general marketing or distribution of goods or services covered by intellectual property rights.[33]

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32. Senator Leahy indicated that "the House did not have time to consider and approve this measure. . . ." 134 Cong. Rec. S. 17,148 (Daily ed., Oct. 21, 1988).

33. The scope of Section 102 was not limited to tying or "conditioned" sales or licenses. After its enactment, the mere pleading of an antitrust violation arguably would have required a full economic analysis and rule of reason trial, thereby subverting the prior *per se*

(Cont'd)

There is almost no record of why Congress did not enact Section 102. Arguably, Congress believed that Section 102 represented too broad a remedy for the narrow purpose of obviating the market power presumption of *Loew's*. An equally plausible explanation is that Congress realized either (a) that the operative charging language of Section 271(d) was sufficiently broad to immunize any additional subsections under the antitrust laws, or (b) that authorizing tied sales and licenses in the absence of market power under the patent laws likewise would provide antitrust immunity for such tying practices under the rule of *United Shoe*.

POINT II

THE COURT SHOULD EXPLICITLY OVERRULE WHATEVER REMAINS OF THE LOEW'S PRESUMPTION AS INCONSISTENT WITH SEVERAL IMPORTANT SUBSEQUENT LINES OF THIS COURT'S DECISIONS AND ON GENERAL PUBLIC POLICY GROUNDS AS WELL

The Association believes that reversal of the panel's decision can be predicated entirely upon the exemption of Section 271(d)(5). However, *Loew's* involved copyrighted films rather than patents or patented products as the alleged tying product. For that reason, the Association agrees with petitioners and the *amici* supporting the grant of *certiorari* that the Court might wish to explicitly overrule *Loew's* to foreclose the potential for continued application of the unwarranted market power presumption in copyright and other non-patent intellectual property contexts as well.

(Cont'd)

misuse holdings of this Court including, by way of example, the holding of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) ("*Brulotte*"). In *Brulotte*, a license extending the obligation to pay royalties beyond the expiration of a licensed patent was proscribed as a *per se* misuse (*Id.* at 32-33), and this Court reasoned that temporal extension of the monopoly is "analogous to an effort to enlarge" the subject matter monopoly by product tying. *Id.* at 33.

A. The *Loew's* Presumption Is Inconsistent With At Least Two Lines Of Subsequently Announced Decisions Of This Court

1. Attenuation Of The Per Se Rule In Non-Patent Tying Cases

The NYIPLA endorses and will not duplicate the well-reasoned positions set forth in the Petition (at 14-17) and in the *amicus* briefs supporting the grant of *certiorari* of the ABA (at 12-14), and Pfizer (at 11) – all to the effect that the attenuation of the *per se* proscription of tying as demonstrated by the non-patent tying cases of this Court such as *Fortner II* cannot be harmonized with continuing application of the *Loew's* market power presumption.

2. The Requirements Of Walker Process

The Association also endorses and will not duplicate the positions set forth in the Petition (at 16-17) and the *amicus* brief supporting the grant of *certiorari* of Pfizer (at 7, 11) – all to the effect that the requirement of *Walker Process*, that market power in a patent-based antitrust case must be ascertained by comparison of the exclusionary scope of the patented claims with a properly defined relevant product market, likewise is inconsistent with continuing application of the *Loew's* market power presumption.

In this connection, the Association believes that Pfizer's response to the panel's argument that the rule of *Walker Process* cannot be extended to Section 1 cases is particularly cogent:

> That is a distinction without a difference. There is no reason to define antitrust markets and evaluate antitrust market power under different standards under § 1 and § 2 of the Sherman Act, both of which require application of the same type of fact-based economic analysis.

Pfizer Br. at 7.

B. The *Loew's* Presumption Contravenes Both Sound Economics And Important Public Policy Objectives Of Efficient Judicial Administration And Has Outlived Whatever Utility It Once Might Have Possessed

1. Evidentiary Presumptions Regarding Intellectual Property Markets Both Contravene Sound Economic Principles And Subvert Efficient Judicial Administration

The NYIPLA endorses and will not duplicate the positions set forth in the Petition (at 19-20) and the *amicus* briefs supporting the grant of *certiorari* of the ABA (at 14), IPO (at 11-13) and Pfizer (at 6) – all to the effect that the lower federal courts, commentators and scholars are virtually unanimous in their belief that the *Loew's* presumption is inconsistent with sound economic principles.

The Association also endorses and will not duplicate the positions set forth in the Petition (at 25-27) and the *amicus* briefs supporting the grant of *certiorari* of the ABA (at 15-16), AIPLA (at 10-13), IPO (at 15) and Pfizer (at 5) – all to the effect that the *Loew's* presumption as interpreted by the court of appeals panel would interfere significantly with the efficient administration of justice by increasing the cost of patent litigation and preventing dismissals of specious antitrust claims on summary judgment.

2. In The Wake Of Lear v. Adkins The Loew's Presumption Has Outlived Whatever Utility It Might Once Have Possessed

Finally, the Association respectfully submits that at least part of this Court's willingness to endorse evidentiary presumptions of market power in relevant antitrust product markets and theories of both *per se* misuse and *per se* antitrust illegality prior to the June 1969 decision in *Lear v. Adkins* probably can be attributed to a desire to facilitate

the ability of patent licensees to challenge the validity of patents by fitting themselves into one of the recognized exceptions to the licensee estoppel doctrine.

To the extent resort to the so-called "antitrust" exception to the estoppel doctrine was no longer required after this Court's *Lear v. Adkins* decision, therefore, a possible policy explanation for the market power presumption of *Loew's* also disappeared.

The "antitrust" exception to the licensee estoppel doctrine originated in this Court's 1942 *Sola Electric* decision,[34] where a licensee was permitted to challenge his licensor's patent despite the estoppel doctrine because the patentee had attempted to enforce a price-fixing clause in the license.

In the *Katzinger* and *MacGregor* decisions in 1947,[35] the *Sola Electric* rule was expanded to include situations where the patentee made no attempt to enforce a *per se* unlawful contract term but merely sought recovery of unpaid royalties. Justice Frankfurter's dissent in *MacGregor* suggested that the exceptions to the estoppel rule had become so widespread that it had become time to accord that doctrine a "decent public burial".[36]

In *Automatic Radio*, however, decided three years later in 1950, the Court's unwillingness to extend the *per se* rule of tying illegality to package licenses provoked an eloquent dissent from Justice Douglas. The dissent stressed the "toll" on the public weal that "invalid or expired" (or "stale and specious") patents represent. *Automatic Radio*, 339 U.S. at 840.

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34. *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173 (1942).

35. *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402 (1947).

36. 329 U.S. at 416 (Frankfurter, J., dissenting).

Arguably, the market power presumption of the 1962 *Loew's* decision can be explained as a political compromise between those sitting justices who remained opposed to expansion of the *per se* rule of tying illegality to packaged copyrighted films and those who were pressing for complete abrogation of the estoppel doctrine.

Indeed, the decision in *Brulotte* announced two years after *Loew's* might well have signaled that the anti-estoppel faction led by Justice Douglas had achieved a majority, and that the estoppel doctrine itself could not be expected to survive. The actual decision in *Lear v. Adkins* was almost antclimactic.

The pre-*Lear* tension between the Court's reluctance unnecessarily to extend the scope of its *per se* rules and its desire to facilitate challenges to invalid patents by those with the greatest economic incentives to mount such challenges would seem to provide a possible explanation for the curious market power presumption crafted by Justice Goldberg in *Loew's*. Whether or not this explanation seems likely, respondent can muster no policy justification for retention of a precedent which has outlived whatever usefulness it may once have possessed.

The market power presumption of *Loew's* should be accorded the same "decent public burial" that the licensee estoppel doctrine was accorded in *Lear v. Adkins*.

CONCLUSION

For all the foregoing reasons, the judgment of the court of appeals panel should be reversed and the district court's summary judgment dismissing the antitrust claims of respondent under both its Section 1 and Section 2 Sherman Act theories should be reinstated.

Respectfully submitted,

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